

Why make acquisitions?

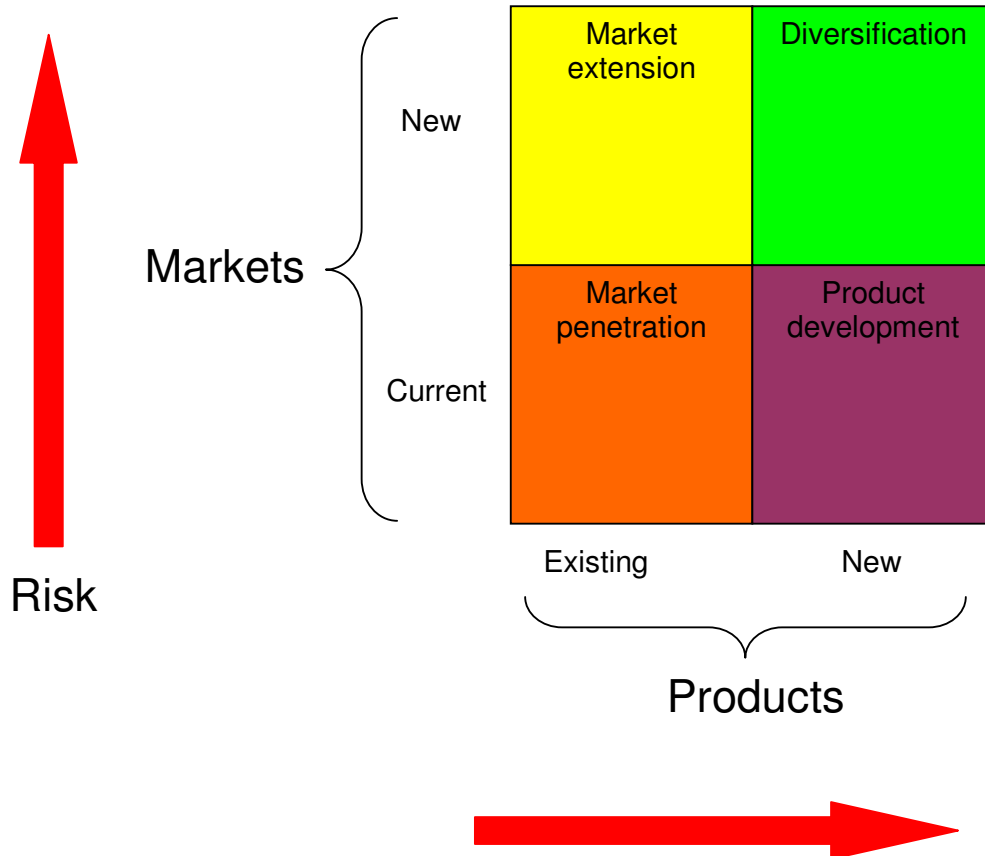
Acquisitions should be considered as part of the overall strategy for any business in any sector. Acquisitions can be part of a strategy to:

- Solve a problem
- Kick-start growth
- Diversify
- Enter new markets
- Develop new products

and many more.....

The key is that acquisition should be part of a strategy.

However, acquisitions have a poor record of success and understanding the risk that you are taking is crucial. One way of looking at risk is to use the Ansoff matrix. This was first published in 1957 as a way of categorising market strategies, but it has equal relevance when thinking about acquisitions.





Examples may make this easier to understand. In the UK, a number of household names have successfully used acquisitions as part of their strategy.

Market extension through acquisition

Tesco acquired T&S Stores – a chain of convenience stores - as a means of entering a new market sector, but using the same products it distributed in its larger stores. In Ansoff terms, this is a market extension strategy.

The acquisition of T&S Stores enabled Tesco to start operating 800 convenience stores the day after the acquisition. Consider the alternative of organic growth, and the amount of time, effort and resource required to achieve similar foothold and you can see how acquisitions can provide a shortcut to success.

Market Penetration

In the same sector as Tesco, Morrison's acquisition of Safeway represents Market Penetration. Although this is intrinsically lower risk, it has taken several years for this acquisition to bear fruit, at least partly because the Morrison's management team underestimated the resources required to integrate the two businesses.

Product Development through acquisition

is very common in the IT Industry and one illustration is Sage Software's development of accounting and ERP systems. Sage began as a provider of accounting systems for the smaller businesses, but through a number of bolt on acquisitions can now offer systems for businesses of many different types and sizes.

Diversification is the strategy with the highest risk

This was very common in the 1970's and 1980's. You may remember Hanson Group, Willams Holdings and others acquiring substantial, unrelated businesses. More recently, diversifiers have looked for some commonality of customer, product or service, positioning the strategy close to the very centre of the matrix. Such "related" diversifications are much more likely to succeed.

These are examples of strategic acquisitions completed by substantial companies. We specialise in bringing our knowledge, skills and experience to bear in the SME marketplace, helping owners and principals make successful acquisitions.

Please contact us for more information:

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